

STATE OF DELAWARE
DEPARTMENT OF FINANCE
DIVISION OF REVENUE
601 DELAWARE AVENUE
WILMINGTON, DELAWARE 19899

TAX NEWSGRAM 71-7

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PERSONAL INCOME TAX

TAX APPEAL BOARD DKT 573 & 574
MODIFIED PER NEWSGRAM 75-21
AND INFORMATION CIRCULAR 76-4

- Subchapter "S" (Tax option shareholders)

QUESTION: How are distributions to subchapter "S" stockholders taxable for state tax purposes?

Taxpayers have been reporting their distributable share of Subchapter "S" income each year for Federal Tax purposes. The Subchapter "S" corporation makes a distribution out of earnings prior to 1971 in 1971 or any subsequent year. The distribution is taxable for State Tax purposes in the year received as income (dividends) and is to be included in the year received.

Example

Subchapter "S" corporation distributes 1970 income to its stockholders in January, 1971. For federal tax purposes this was taxable in 1970. For state tax purposes it is taxable in 1971.

A Subchapter "S" corporation whose stockholders are residents of Delaware would be taxed in the same manner as the federal return for years ending on or after 12/31/71.



J. H. Kennedy
Director of Revenue

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